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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday 31 October 1978 CG NIDC 78/254



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NATIONAL SECURITY INFORMATION
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National Intelligence Daily Cable for Tuesday, 31 October 1978.

The NID Cable is for the purpose of informing senior US officials.

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IRAN: Setback To Settlement

25X1 . [] *The uncompromising stand last weekend by the leader of Iran's moderate religious opposition against a settlement with the government has aborted the tentative, unpublicized accord reportedly reached earlier between Prime Minister Sharif-Emami and moderate opponents of the Shah.*

25X1 [] Ayatollah Shariatmadari told the press that he had lost confidence in the government and that at some point his followers may have to take up arms to set up an Islamic state.

25X1 [] In Paris, exiled religious leader, Ayatollah Khomeini reiterated his hardline call for the overthrow of the Shah and was joined in that call by Karim Sanjabi, a leading moderate political opponent of the Shah.

25X1 [] Shariatmadari's apparent quick turnabout on a political settlement with the government may have been prompted by his failure to persuade Khomeini, the most influential spokesman among Muslim fundamentalists, to accede to the accords. Other moderate religions and political opponents of the Shah for the moment at least have publicly expressed their solidarity with Khomeini, rather than risk the loss of mass support they fear would result from a split with him.

25X1 [] The rejection by moderate religious leaders of a reconciliation with the government is an ominous development that will further polarize political forces and make it increasingly difficult for advocates of a negotiated settlement to continue their efforts. Opposition extremists, moreover, will be encouraged to maintain pressure on the Shah by instigating more violence in the streets, which would in turn strengthen the hand of those who call for a military government to restore order. []

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IRAN: Oil Situation Worsens

25X1 . [] *The strikes in the Iranian oil industry have seriously affected production, which yesterday dropped to around 1.5 million barrels, about one-fourth the prestrike level. Even after a settlement is reached, industry sources estimate that it will take one to two weeks to return production to prestrike levels.*

25X1 [] Exports of crude have fallen to about 1 million barrels per day, compared with the prestrike level of about 5.5 million barrels per day. Export volume fluctuated widely during the past nine days, with daily deliveries averaging about 2.0 million to 2.5 million barrels per day below normal. Iran has lost \$25 million to \$30 million daily.

25X1 [] The government has attempted to satisfy striking workers so as to avoid increasing the ranks of those in opposition to the Shah. It has granted wage and benefit hikes as high as 50 to 100 percent, but its conciliatory attitude has only led additional workers to stage walkouts.

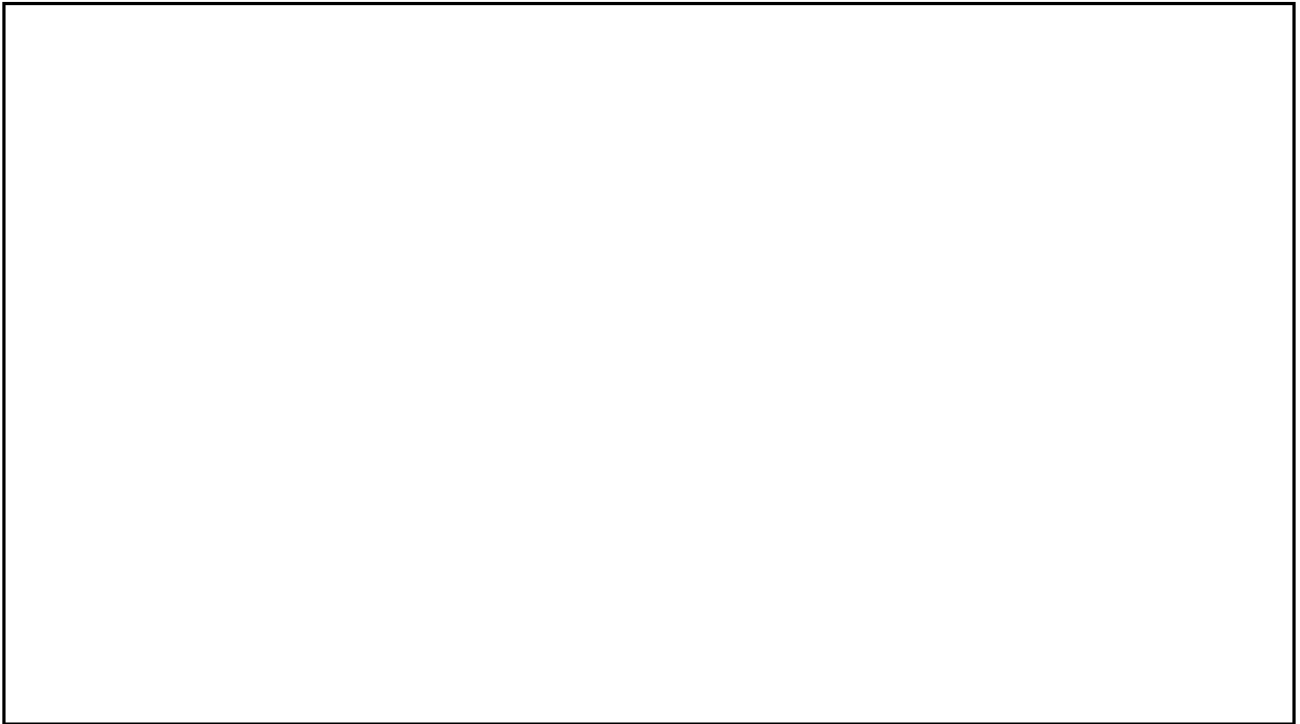
25X1 [] Oil inventories among non-Communist countries currently are in good shape, with stocks amounting to about 74 days of normal consumption as of 30 September 1978. Half of these stocks could be drawn down in an emergency while the remainder is needed to keep the distribution system running smoothly. Oil supplies at sea amount to an additional 30-day supply.

25X1 [] As consumers of Iranian oil attempt to replace it with oil from other sources, market prices could rise sharply. The cutbacks in Iran compound an already strained supply situation resulting from a traditional surge in demand in anticipation of a yearend price increase by the Organization of Petroleum Exporting Countries.

25X1 [] Increases in output from Saudi Arabia, Iran, and other producers in OPEC probably would have accommodated the increase in demand but the Iranian export cutback introduces new pressures into the market. If all buyers try to cover shortfalls from Iran by turning to other suppliers and the Iranian cutback persists, market prices could be pushed much higher than the supply situation warrants. []

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RHODESIA: Election Plans

[Redacted] //Leaders of Rhodesia's biracial transitional government reportedly plan to postpone elections called for under the internal settlement until early in February. They realize that preparations cannot be completed in time to hold the vote in December as scheduled. Rhodesian Prime Minister Smith is trying to reassure whites that the postponement will not lead to any dramatic deterioration in the security situation.//



[Redacted] //The Executive Council apparently does not plan any immediate announcement of a new election date and will wait to see if the all-parties meeting proposed by the UK and the US can be held. Although preparations for the election will continue, the Council is prepared to suspend such activity if an all-parties meeting is organized.//

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[redacted] //White Rhodesian officials have hinted publicly for sometime that the election cannot be held before the end of the year, and Smith told the press last weekend that it appeared certain the vote would be delayed. He said the Council would soon reassess the timetable for the election and transfer of power to the black majority. His assertion that the armed forces are capable of handling the security situation despite the delay reflects his concern over shaky white morale and particularly over renewed heavy white emigration in recent months.//

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[redacted] //The Council apparently was not united in its decision to postpone the election; Bishop Muzorewa told the press in London last weekend that he would have to be given "good reasons" before agreeing to any delay. Muzorewa feels his political fortunes will decline if the vote is not held soon, but he is unlikely to leave the government over a postponement of a few months. [redacted]

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EGYPT: Horn of Africa

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[redacted] *An Egyptian demarche to the US over the weekend expressing concern about events in the Horn of Africa since the recent coup attempt in North Yemen* [redacted]

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[redacted] The ostensible reason for the demarche was Egyptian President Sadat's wish to inform the US of recent complaints by the Djibouti Foreign Minister, who told the Egyptians that Djibouti might not be able to resist strong pressure from the USSR to accept a Soviet ambassador. The Foreign Minister also expressed concern about the situation in North Yemen and complained that the US and Saudi Arabia were complacent about Soviet efforts to control the region.

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[redacted] The Egyptian Foreign Ministry official who presented the demarche to US Ambassador Eilts said that Sadat is also concerned about North Yemen and would welcome comments about the situation from the US. [redacted]

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[] Sadat has often expressed concern about Soviet activity in the Horn and what he regards as a timid Western response. He has been consistently more bold than his advisers in advocating that Egypt help moderate governments in the area that are under pressure from Soviet-sponsored regimes or domestic radicals. Each of the officials whose opinion Sadat has requested in this instance is a recent appointee. Sadat recently dismissed two advisers who urged restraint on such matters--former Minister of War Jamasi and former Chief of Staff Fahmi.

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CAMBODIA: Ieng Sary Trip

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[] *Cambodian Vice Prime Minister for Foreign Affairs Ieng Sary returned to Phnom Penh on Saturday after a trip designed to improve Cambodia's international image and to gain political support for Cambodia in its conflict with Vietnam. In a speech at the UN General Assembly and in talks with Philippine, Indonesian, and Japanese leaders, Sary accused Vietnam of aggression and denied Vietnamese accounts of widespread rebellion inside Cambodia.*

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[] Ieng Sary's trip, which was no doubt encouraged by the Chinese, provided Cambodia an opportunity to counter charges that the regime has violated the rights of thousands of people and to present its own version of the fighting with Vietnam. Sary denied that China provided military support for Cambodia, but said there were "several thousand" Chinese advisers in agricultural development and similar fields.

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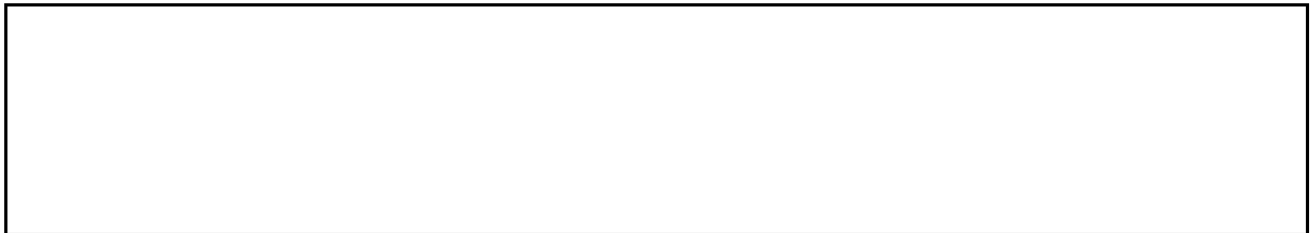
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[] Sary also denied Vietnamese accounts of widespread uprisings in Cambodia. The Vietnamese claimed last week that So Phim, a former senior official of the Cambodian regime is leading a rebellion in 16 Cambodian provinces and that the antiregime forces have established a "liberated zone." We have no evidence to substantiate these claims. Vietnam may refer to the "rebellion" to justify stepped up Vietnamese military operations and Khmer resistance activities in the future.

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[] Ieng Sary discussed ways to improve bilateral relations with the Philippines and Indonesia, but no concrete steps were taken. Philippine and Indonesian leaders want to avoid taking sides in the Indochina conflict, and they were irritated by Sary's strong anti-Vietnamese statements. Sary stopped briefly in Japan and spent two days in China before returning to Phnom Penh.

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ITALY: Wage Policy

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[] An emergency debate in the Italian parliament today on a bill regulating wages for public employees will be the Andreotti government's latest test stemming from its proposed economic stabilization program--the so-called Pandolfi Plan. Andreotti may call for a vote of confidence following the debate.

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[] The problem of wage restraint has for the moment supplanted other economic issues, such as pension reform, as a priority matter for the government. The issue arose following a breakdown in government talks with striking hospital workers' unions over their demand for immediate wage increases. The unions have threatened to organize a general strike of public sector employees if their demands are not met. The government rejected their demands in order to avoid setting a precedent that other unions might cite when they seek wage hikes.

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25X1 [] In referring the issue to parliament, Andreotti is gambling that the parties backing his government--including the Communists--will not renege on their earlier support for the broad goals of the Pandolfi Plan. He is clearly banking on the desire of nearly all party leaders to avoid a governmental collapse at this time. The odds appear to favor a compromise, but Andreotti has created a difficult dilemma for all of the parties. The Communists in particular want to avoid a crisis, but they also have more to lose by getting out of step with labor.

25X1 [] In his latest statement, Communist Party chief Berlinguer underlined his party's continuing support for the government's economic policy objectives. In the event of a deadlock on the wage issue, however, Berlinguer would come under strong pressure not to desert the unions. []

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BRIEFS

Rhodesia

25X1 [] The presidents of the African frontline states apparently did little if anything to resolve their problems at their meeting in Dar es Salaam on Sunday. After a brief joint session, Tanzanian President Nyerere met individually with the other presidents who attended. Mozambican President Machel did not attend the summit. Machel apparently is still angered by Zambian President Kaunda's decision to resume use of rail lines through Rhodesia. Kaunda reportedly attended only on the condition that the rail issue not be discussed. Nyerere is anxious to avert an open breach among the presidents and will continue to work behind the scenes to smooth things over. []

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Zambia-UK-Rhodesia

25X1 [] Zambia will get a much-needed psychological boost from the air defense system, including surface-to-air missiles, being provided by the British, but the system will not deter future incursions by Rhodesian forces. The equipment will provide a defensive ring around Lusaka, which is not a military target. It will be some time, moreover, before the equipment is operational and the British have trained Zambian troops to use it. Rhodesian Prime Minister Smith will regard the British

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aid as proof that the UK--and by association the US--is biased in favor of the guerrillas and the frontline states, but it should not change his basic position toward further settlement talks.

Spain

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Following its successful antiviolence demonstration in Bilbao last weekend, the Basque Nationalist Party held a "National Assembly" and voted unanimously to campaign for abstention in the constitutional referendum. The decision, though not unexpected, will be a blow to Prime Minister Suarez' hopes for a convincing nationwide endorsement of the new constitution.

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The constitution will almost certainly win a sound majority even in the Basque region--Socialists and Center Democrats outpolled the Basque Nationalists there by 11 seats to 8 in the last parliamentary election--but participation in the referendum is bound to be reduced.

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The two houses of parliament are likely to approve the final draft of the new constitution this week, and the referendum will probably be held in early December.

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